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UNDERSTANDING PRACTICAL LEADERSHIP AND CORPORATE GOVERNANCE IN GHANAIAN RURAL BANKS

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Understanding Practical Leadership and Corporate Governance in Ghanaian Rural Banks

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Abstract – The research has investigated the effect of corporate governance on strategic change in rural banks in the Eastern Region of Ghana. It was also examined the importance of governance mechanism and strategic decisions on weaknesses and threats to the banks effective operation. It has examined the understanding of ownership, board, and the top management team in strategic change on banks values. It has also revealed the relationship between strategic/policy changes and the bank performance in the community.

Over the years, the RBs, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. Despite the role played by the rural banks in the rural financial climate and the effort by the government to energize their growth, their performance within the financial scene, over the last three and half decades has not been up to the expectation. The purpose of this paper is to examine the performance of the rural banks in Ghana by using financial ratios as a tool of measurement.

In the light of the importance of banks to the economic growth process in Ghana, this study sought to identify the determinants of effective leadership style that is appreciated by employees in retail banking firms in Ghana, towards providing practitioners with crucial information that could enable them make informed decisions towards improving the workplace.

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INTRODUCTION

Over the last 15 years corporate governance has become one of the most topical issues in business and finance discourses. Corporate governance is associated with the defense of shareholders' interest by the use of firm governance devices. It covers a number of issues with a shared focus on the relationship between owners, board of directors, top management teams and CEOs, as well as the remuneration of executives at different levels.

Corporate governance is the system by which business corporations are directed and controlled. The structure of corporate governance specifies the corporation between the board, managers, shareholders and other stakeholders. The structure again, spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the organization objectives are set. The structures give the means of attaining those objectives and monitoring performance. Organizations are there typically to serve the interest of widely dispersed stakeholders (that is, investors, customers, government, community members, employees, suppliers, citizens). But day-to-day control is entrusted to a small group of managers who may have little direct interaction with stakeholders. The question is: How then to ensure that managers serve the interest of stakeholders, rather than their own private interest? The need for an organization to have corporate governance arrangements are an important part of the answer. These arrangements encompass the power given to management, control over management's use of power (via institutions such as board of directors), management's accountability to stakeholders and the formal and informal processes by which stakeholders influence management decisions. In the private and quasi-private sectors, the traditional governance model positions management as accountable solely to investors (shareholders). But a growing number of corporations accept that stakeholders other than shareholders are affected by corporate activity, and that the corporation must therefore be answerable to them. This idea is the foundation of corporate social responsibility, and provides the link between CSR and governance. A board of directors often plays a key role in corporate governance. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its owners and authorities. In Ghana, many of research on the corporate governance attempted to focus on the operation of corporate board but little has been done in the area of governance and strategic change, most commonly the board, while excluding others like ownership and top management. Especially, the notion of corporate governance as dealing with the interaction between a firm's ownership, board and top management has not been sufficiently explored in the literature. The track record of success in bringing about strategic change within organizations is poor. For strategic intent to become reality, it is necessary to change the way in which individuals within an organization behave. These often involve radical transitions within an organization that encompass strategy, structures, systems, processes and culture. Change is about changing people, not organizations. Organizations change when the managers and employees change their way of doing business. This is what board of directors is set up to look into. In this research, the aim will be on the step towards overcoming some of these shortcomings by examining how different governance structures operate and interact to promote organization's ability to change strategically.

The rural banking industry which began in Ghana in 1976 has grown significantly in terms of assets and its contribution to the economic growth of Ghana. It has unique characteristics in terms of ownership structure, management structure and operations features. Unlike the large commercial banks, RCBs are community-owned and community-run unit banks. This gives them geographical advantages which facilitate the proper management of moral hazards and adverse selection. The main roles of (Bank of Ghana, 2006) RCBs are:

1. To mobilize savings in the rural communities and channel them into the provision of credit to rural microenterprises, agro-based firms and cottage industries.

2. Monetize the rural communities by way of inculcating in rural folks the culture of formal banking.

3. Serve as tools for the growth and development of microenterprises in the rural communities to facilitate rapid rural industrialization for the overall enhancement of the national economy.

The level of financial market development is known to have an impact on the economy of a nation. In this vein, the level of banking development and stock market liquidity also impact on the economy of a country. A long line of research posits a causal relationship between finance and economic growth. Evidence from both single-country and crosscountry studies suggests that economies with more developed financial markets begin to grow earlier, attain higher growth rates and achieve higher levels of per capita income than economies with less developed financial markets .

Many empirical studies have also followed an earlier study in which differences across space and time was exploited to identify a causal link between finance and development, and recent research has focused on the mechanisms underlying that relationship. This was based on the thought that financial intermediaries improve resource allocation and fund projects with higher rates of return by matching borrowers and lenders efficiently and by monitoring firm. Thus the effective functioning of a country's financial system enhances the smooth implementation of its macroeconomic policies. Motivated by this view, governments in most African countries, including Ghana began to implement financial sector reforms starting in the late 1980s as part of their broad market reforms.

Managing rapid growth has always entailed enormous human resource challenges, even in advanced countries with larger pools of skilled employees and managerial talents.

Companies operating in high growth sectors face the challenge of hiring and assimilating large numbers of new employees, providing new knowledge and skills to existing employees and addressing the needs for a rapid expansion of leadership capability. Providing growth-oriented leadership requires attentiveness to employees, economic, social and emotional needs. The banking sector in Ghana is therefore faced with leadership and human resource management challenges. These include finding the right caliber of managers to employ, ensuring their commitment to their organizations and reducing their desire to switch to competitor companies, due to apparent dissatisfaction with their jobs. These challenges have been elaborately discussed in Western management literature.

Studies have shown that job satisfaction impacts an employee's turnover intention, absenteeism and overall commitment to their organizations. It therefore impacts employees' overall contribution to organizational goal fulfillment and therefore organizational performance. The prevailing understanding is that when an employee is dissatisfied with his work, he is less committed and will look for opportunities to quit. If opportunities are unavailable, they may emotionally or mentally "withdraw" from the organization. Employee attrition is a major cost to rapidly growing companies. First, they lose the knowledge that the employee has built up over years of employment. Second there is the additional cost of replacing and training new employees.

In the banking sector, where customer satisfaction depends very much on the relationships between employees and customers, this loss can be significant to some retail banks. Antecedents of job satisfaction and organizational commitment found in previous studies include, organizational culture.

Rural banks have been in existence for around three decades in the Ghana's financial scene. The beginning of the rural banks (RB) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in Ghana. The genesis of the rural banks can be traced to the need for a stronger institutional arrangement for providing rural credit. Rural banks were supposed to evolve as specialized rural financial institutions in developing the rural economy by providing credit to small and marginal farmers, agricultural laborer, artisans and small entrepreneurs.

The primary objective for setting up the rural banks was to bring financial intermediation in the rural areas to facilitate the payment system and to promote savings and investment. This was aimed to bring banking services to rural dwellers and to reduce the amount of money kept outside the banking system. In spite of the fact that 70% of the country's population resides in the rural areas and the fact that agricultural production was principally carried out in the rural areas, there were no financial institutions to serve them. Between 2000 and 2008, the RCB network has witnessed growth in both the profitability and net worth. Network wide capital is well above the minimum 10 percent required by the Bank of Ghana. Not all RCBs in the network are solvent, however; in 2008 seven RCBs were insolvent, and the continued operation of poorly performing RCBs is one of the key issues facing the network. The relatively high ratio of nonperforming loans is a major factor affecting financial performance. Several challenges, however, remain. The Bank of Ghana (BoG) rated the performance of 17 of the 135 rural banks in operation as mediocre on capital adequacy, and it categorized 5 banks as distressed. Among the banks whose performance is categorized as mediocre, 6 rural banks have negative net worth. The Apex Bank of the network, which was created primarily to provide services to rural banks, is not yet fully financially self-sufficient and has inadequate resources to effectively perform its function. The BoG, which is primarily responsible for supervising RCBs, is constrained in effectively performing its supervisory role because of political and civil society pressures, resource constraints, and limited delegation of supervisory functions to the Apex bank. Over the years, the RBs, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. In term of geographical coverage, the RBs role in rural institutional financing cannot be over emphasized. The RBs business capacity and customer base contribute to the development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. The mandate of promoting banking with a rural focus, however, would be an enduring phenomenon only when the financial health of the RBs is sound. With built-in restrictions on their operations, it is common to expect that the financial health of the RBs itself would be a matter of concern. As a network RCBs have achieved a remarkable level of service delivery and financial performance. At the end of 2008 they had a deposit of GHc343.9 million (US$265.1 million) from more than 2.8 million clients, and loans and advances of GHc224.7 million (US$173.2 million) with about 680,000 clients (Nair and Fissha, 2010). Bank of Ghana (2011) recorded total deposits for the rural banks of GHc667.3 million representing 7.8% of deposits mobilized by all banks. Despite the role played by the rural banks in the rural financial climate and the effort by the government to energize their growth, their performance within the financial scene, over the last three and a half decades has not been up to the expectation. The operations of the RCBs have been dogged by a lot of problems ranging from lack of quality management, low capitalization, and poor customer service to governance problems. According to Nair and Fissha (2010), the financial performance of many RCBs started to decline, however, for several reasons, including a drought that affected the country in 1983 (leading to high loan default rates), weak governing ability, conflicts within boards of directors, and ineffective management in many RCBs. In order to restrain the worsening state of RCB, the GoG closed down distressed banks, strengthened supervision, limited exposure to the agriculture sector, offered capacity building to RCB managers and boards of directors. The RCBs continued to be important rural financial service providers, and the GoG has consistently provided support to the RCBs by financing capacity building (in partnership with several donors), restructuring programs, and undertaking regulatory reforms.

THE CONCEPT OF CORPORATE GOVERNANCE

Corporate governance is often described as a vague concept, with loose definitions giving rise to different understandings of what it involves. Various documents, reports and codes of best practice define corporate governance. A definition often used is the one drafted by the Cadbury Committee in the UK in 1992, it defined corporate governance as ―a system by which companies are directed and controlled‖. In the 2002Sarbanes-Oxley Act (SOX) Principles of Good Corporate Governance and Best Practice Recommendations, corporate governance is defined as ―the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations‖, while Wikipedia (2013)defines it as ―a processes and relations by which corporations are controlled and directed. It identifies the distribution of rights and responsibilities among different participants such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders, where corporations' objectives are set and pursued in the context of the social, regulatory and market environment and includes the rules and procedures for making decisions in corporate affairs.Governance mechanisms include monitoring the actions, policies and decisions of corporations and their agents. Corporate governance practices are affected by attempts to align the interests of stakeholders.

On other hand, OECD (2004) defines it as ―corporate governance is the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders like employees and creditors. It contributes to growth and financial stability by reinforcement of market confidence, financial market integrity and economic efficiency. In essence, corporate governance therefore relates to the manner in which corporations are regulated and managed.Therefore, corporate governance structure specifies the distribution of rights and responsibilities among different participants in different organizations such as the board, managers, shareholders and other stakeholders; and spells out the rules and procedures for making decisions on corporate affairs.

LITERATURE REVIEW

The environment is assumed to be objectively determined and manifested as a source of threats and opportunities. Immutable by managerial actions, environmental conditions are assumed to directly influence changes in the content of strategy through a deliberate analysis of strategic alternatives. Also assumed to be objectively determined, organizational factors associated with inaction are considered weaknesses that inhibit changes, and factors contributing to flexibility are considered strengths that support the need for change. Governance strategic change in organization should be responsibilities of ownership, board, and the top management team. Corporate governance mechanism should ensure that, the strategic change brings corporate fairness, transparency and accountability. For Banking Institutions to ensure transparency, their annual reports should disclose true and fair accounting information prepared in accordance with applicable standards. The corporate governance must promote active cooperation between ownership, Board, and the top management team in order to change the operations strategically. Organization gives a little recognition to corporate governance mechanism as a major contributor to organizations performance. Organization should know that, strategic change in businesses promote wealth creation.

Corporate governance refers to the relationship among the Board of Directors, top management, and shareholders in determining the direction and performance of the corporation. The role of the Board of Directors varies a lot from a country to another, from industry to another and from company to another. Many scholars consider that the primary responsibility of the Board of Directors is to protect the shareholders' assets and ensure they receive a decent return on their investment. In contrast to that in some European countries, the sentiment is much different. This is because; many directors there feel that it is their primary responsibility to protect the employees of a company first, the shareholders second. In these social and political climates, corporate profitability takes a back seat the needs of workers. Agency theory suggests that top managers' inclination to change strategy is linked to the ownership structure of the firm. This is because managers' wealth increases with growth and diversification, rather than through the total equity value of the firm. In rural banking, ownership and management are often unified, potentially making such behavior less likely.

Rural and community banks (henceforth referred to as rural banks or RCBs) are a network of 140 independent unit banks in Ghana. They are policed by the Bank of Ghana and thereby form part of the regulated financial sector in Ghana. These banks are the largest providers of formal financial services in rural areas and also represent about half of the total banking outlets in Ghana (IFAD 2008). By the end of 2008, these banks collectively had 421 branches. Prior to the establishment of the first rural bank in 1976, rural communities, especially for small farmers and fishermen did not have access to formal credit. The moneylenders and the traders were the main sources of credit, charging excessive interest rates. To this effect the government took the initiative to improve the accessibility of finance in the rural areas. Under these measures, the commercial banks were required to lend at least 20 percent of their portfolio for agricultural uses. It was within this notion that the Agricultural Development Bank (ADB) was enacted in 1965 with the exclusive permission to lend to agriculture and allied industries in rural Ghana. Lending to the rural sector, however continued to be low, this was due to the fact that commercial banks were using their rural branches to make payments primarily to the cocoa farmers and collect their deposits for lending in urban areas. Credit facilities were not provided as initially envisioned. Commercial banks demanded strict collateral requirements and higher deposit accounts to provide loans to rural communities. Many fishermen and small farmers had no deposit accounts in commercial banks. Moreover, they could not satisfy the collateral requirements for commercial lending (Andah and Steel, 2003). A study by Mensah (1993) and Ranade (1994) found ADB's credit provision and coverage to be limited. Only 27 percent of its branches were in rural areas, and lending to smallholder farmers made up only about 15 percent of its total portfolio. In view of this situation, the Government of Ghana (GoG) considered supporting the enactment of community banks in rural areas that would be dedicated to providing financial services in those areas.

A large number of empirical studies have been conducted about factors influencing bank performance or determinants of bank performance. However, most of these studies covered developed economies, whereas much less study covered emerging economies such as Ghana's economy. Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies. Goddard et al. (2004) study the performance of European banks across six countries. They find a relatively weak relationship between profitability and size. The profitability was measured by return on equity (ROE). Williams (2003) considers the determinants of the performance of foreign banks based in Australia for the period 1989-93. With return on assets (ROA) as the dependent variable, he found foreign banks in Australia to have a significant low marketing share. He also found non-interest income and net interest margin to be significant. Chirwa (2003) studied eight banks in Malawi (1970-84) and observed loan to asset ratio to be positive and significant coefficient on ROA. Using data from 1999 to 2003, Tarawneh (2006) used financial ratios to assess the performance of the Omanis banks. His results showed that the financial performance of the banks was strongly and positively influenced by the operational efficiency, and asset management in addition to the bank size. Mostafa (2008) has measured the relative efficiency of the top 100 African banks using a cross-sectional data for the year 2005. He found out that the performance of several banks is sub-optimal suggesting the potential for significant improvements. Using data from 1976 to 1987, Obben (1992) performed canonical correlation analysis to investigate rural bank performance in Ghana.

Al- Haddad et al. (2011) sought to provide evidence of corporate governance and performance indicators of the Jordanian industrial companies listed at ASE. They found that there is a direct positive relationship between profitability, measured either by Earnings per share (EPS) or Return on assets (ROA), and corporate governance, also a positive direct relationship between corporate performance, liquidity, dividend per share, and the size of the company with corporate governance.

In his study, Bawaneh (2011) seeks to understand how Jordan banking sector is affected by the Corporate Governance (CG) requirements released by Basel Committee on Banking Supervision (BCBS) and Organization for Economic Cooperation and Development (OECD). Results indicated that banks in Jordan are complying with CG requirements in compliance with the Central Bank of Jordan (CBJ) based on BCBS and OECD guidelines and requirements which enhance the CG procedures. Therefore, CG continues to gain attention and importance from parties concerned in Jordan, but many steps need to be done in the future, in this regard Shanikat and Abbadi (2011) revealed that although some principles of corporate governance are not materialized yet, Jordanian companies are applying corporate governance in large scale and those principles are recorded at Jordanian laws and regulations.

Al-Sa'eed (2012), study the ―The Role of Corporate Governance on the Reduction of the Global Financial Crisis Implications: Evidence from Banking Sector of Jordan‖. The study aimed to determine the relationship between the independent variables: Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the dependent variable: Reduction of the global financial crisis implications. The study revealed that a positive significant relationship between independent variables and dependent variables is found, and that Corporate Governance's Principles have reduced the implications of the global crises on the Jordanian Banking Sector. Additionally, the study found that the economy does not get the expected benefits from CBJ regulation.

Tomer and Bino (2012) and Al-Smadi et. al. (2013) have concluded that the ownership structure and board composition have a strong impact on the firms' efficiency and effectiveness and thus its overall performance. The positive effects returned on companies' performance in Jordan is due to the higher freedom of royal family to choose the strategic partners and lower governmental interventions. Surprisingly, board size has no effect on companies' performance.

Saif (2013) explores the corporate governance at private hospitals in Jordan. The study revealed that workers at those hospitals are possessed weak understanding and awareness of corporate governance although governance serve and protect both of workers and shareholders rights. Basically, the study highlights some conflicts might arise in absence of implementing principles of corporate governance in private health sector in Jordan.

Al-Beshtawi et. al. (2014) investigating the role of corporate governance in the commercial banks and Islamic banks in Jordan and its impact on financial and non-financial performance because it has an impact on improvement and development of managerial decision-making processes and stages that enhance internal activities of banks and raise the level of performance. The study found that corporate governance was implemented through identifying its principles and components in addition to formulating committees that would activate the applications of CG.

METHODOLOGY

A. Data Collection

Data was sourced from eleven (11) financial institutions in Ghana that are engaged in retailing data. In order to gain an unhindered access to target employees, in these banks, the support and approval of top management for the study was firstly sought and obtained.

A stratified random sampling technique was then used to select the respondents from each of the retail banks. The stratification was based on the respondents' position in the firms (i.e. managerial and non-managerial. Data entailing seventeen (17) leadership style indicators was collected using a self-administering questionnaire.

The demographic characteristics of the respondents in terms of their gender, organizational status, age, highest educational level attained, and the number of years worked with the banks is highlighted below. The gender of the bank employees who served as study respondents is summarized in table 1 below.

Gender	Frequency (N)	Percent	Valid Percent	Cumulative Percent
Male	146	51.8	51.8	51.8
Female	136	48.2	48.2	100.0
Total	282	100.0	100.0	

TABLE 1. GENDER DISTRIBUTION OF STUDY PARTICIPANTS

The distribution shows that 51.8 % (N=146) of the 282 study respondents were males while 48.2 % (N=136) were females. Though it appears from this statistics that there were more males than females, the closeness of the percentage provides a fair sense of sample representation in terms of respondents' gender.

The stratification of the study respondents into managerial and non-managerial categories is highlighted in table 2 below.

Position	Frequency (N)	Percent	Valid Percent	Cumulative Percent
Managerial	57	20.2	20.2	20.2
Non-managerial	225	79.8	79.8	100.0
Total	282	100	100.0	

TABLE 2. SUMMARY OF RESPONDENTS'' POSITION IN THE BANKS.

The distribution shows that out of the sample 282 respondents, 20.2 % (N=57) hold managerial status in the banks, while the remaining 79.8 % (N=225) were general staff members with no managerial responsibilities. This distribution indicates a fair representation of span of control (supervisor – employees) in the banks in where a manager is expected to directly supervise an average of five employees.

The age distribution of the study respondents is summarized in table 3 below. The distribution shows that majority (61.7 %) of the respondents were mid-career employees (N = 174) whose age ranged from 30 years to 49 years.

Age Range	Frequency (N)	Percent	Valid Percent	Cumulative Percent
20-29 years	101	35.8	35.8	35.8
30-39 years	120	42.6	42.6	78.4
40-49 years	54	19.1	19.1	97.5
50-59 years	7	2.5	2.5	100.0
Total	282	100.0	100.0	

TABLE 3. AGE DISTRIBUTION OF STUDY PARTICIPANTS.

One hundred and one (35.8 %) of the respondents were also in the prime of their careers with age that ranged from 20 years to 29 years. Only 2.5 % (N = 7) of the 260 study respondents were at the epic stage of their careers with age range of 50 years to 59 years. The study respondents thus represent a fair collective of matured bank employees.

The distribution in table 3 above shows that majority of the respondents were highly educated as it is indicated by a total of 90.0 % (N = 254) respondents who are university degree holders education, and the 7.5 % (N = 21) who are diploma and certificate holders.

RESULTS AND DISCUSSION

In this section, the measured factors (regression weights) predictive of leadership style, organizational culture, national culture, employee characteristics, job satisfaction, organizational commitment, and organizational performance are analyzed, and the factors with the requisite predictive characteristics are determined. At the start of the analysis, the predicted model structure outlining the relationship among the various model components (i.e. leadership style, organizational culture, national culture, employee characteristics, job satisfaction, organizational commitment, and organizational performance) was loaded into the AMOS software. The AMOS software recognized each of these components as latent variables and thus was not able to provide a model fit for the predicted model structure. In this respect therefore, each of the latent variables in the predicted model structure was model-fitted to its measurable factors in the AMOS software. This allowed for the performance of confirmatory factor analysis and the subsequent estimation of individual factor loadings which weights were analyzed and used to characterize the respective components of the predicted model structure from latent variables into measured variables.

In the confirmatory factor analysis, the factor score weights (i.e. regression estimates) for each factor in the respective scales were firstly generated from the

AMOS software and then appraised in order to identify the most appropriate factor that could be used as the most representative in testing relationship professed in the predicted model.

CONCLUSION

Since 2001, corporate governance has received renewed interest internationally due to high-profile collapses. Enron and WorldCom in the US are examples of prominent corporate collapses. Directors are expected to act in a socially responsible manner. The need for corporate governance arises because of the separation of management and ownership in the modern corporation. In practice, the interest of those who have effective control over a firm can differ from the interests of those who supply the firm with external finance. Transparency and disclosure is in many ways the key to good governance.

The findings from this study have shown that employees of retail banks in Ghana have strong appreciation of some leadership actions at the workplace. Though this study tested as several indicators of leadership in the work environment of retail banks, the results showed that issues that has to do with the manager's competence in making decisions (r = 0.651, α = 0.424), as well as supervisors and employees understanding each other (r = 0.807, α = 0.651) could not be viewed as strong leadership style indicator.

In summary, this study has therefore established that managers of retail banks in Ghana could be perceived by their employees as good leaders if they are perceived by the employees as giving them (i.e. employees) full credit for the work that they employees do at the workplace. Additionally, the managers perceived as handling employee issues very well and taking care of complaints brought up by employees, as well as putting in place systems for enhancing employees' career advancement into specialist departments or management positions are also perceived as good leaders.

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